

**REPORT OF THE AUDIT OF THE
LEWIS COUNTY
SCHOOL DISTRICT**

**For The Fiscal Year Ended
June 30, 2012**

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Members of the Board
Lewis County School District
Vanceburg, Kentucky

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lewis County School District, Vanceburg, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lewis County School District, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 32 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an

LEWIS COUNTY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT
(Continued)

opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lewis County School District's basic financial statements as a whole. The introductory section and combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Lewis County School District. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross and Company", written in dark ink.

Ross and Company, PLLC
November 12, 2012

**LEWIS COUNTY SCHOOL DISTRICT
VANCEBURG, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

As management of the Lewis County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning balance for the General Fund was \$599,084.
- The district took cost cutting measures in fiscal year ending June 30, 2012 to offset funding uncertainties and reverse a negative trend in financial position.
- For fiscal year 2012 The Board reduced certified salary schedules by two instructional days and increased some cells of classified salary schedules so they contained a minimum of a \$200 step increase. All employees received a step increase in salary for the year of service performed in fiscal year 2011.
- The General Fund had \$13,472,835 in revenue, which primarily consisted of the state funding program (SEEK), property taxes, utility taxes, and motor vehicle taxes. There was \$12,945,603 in General Fund expenditures. These amounts for revenues and expenditures are reported net of on-behalf payments made by the state for health insurance, life insurance, and retirement. General Fund on-behalf payments totaled \$3,314,986 for fiscal year 2012.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of facilities, student transportation, and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

LEWIS COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012
(Continued)

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The state has mandated uniform system (MUNIS administrative software) and chart of accounts for all Kentucky public school districts. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental or proprietary funds. The District's only proprietary fund is food service operations. All other activities of the district are included in the governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2012

The District implemented GASB 34 in fiscal year 2003 and recorded fixed assets and debt for the first time. The following is a comparison of the District's net assets for the years ending June 30, 2011, and 2012.

	<u>2011</u>	<u>2012</u>
Current Assets	\$ 1,253,637	\$ 2,712,416
Noncurrent Assets	19,091,730	17,923,976
Total Assets	\$ 20,345,367	\$ 20,636,392
Current Liabilities	1,947,926	1,897,073
Long-Term Liabilities	13,270,360	13,320,791
Total Liabilities	\$ 15,218,286	\$ 15,217,864
Total Net Assets	\$ 5,127,156	\$ 5,418,528

There has been no significant change in the financial position of the district since the last audit.

LEWIS COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012
(Continued)

Comments on Budget Comparisons

- The general fund's total revenues budgeted for the fiscal year ended June 30, 2012, excluding inter-fund transfers and on behalf payments, were \$13,562,064.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$146,993 more than budget or approximately 1.08%.

The following table presents a summary of the general fund's receipts and expenses for the fiscal year ended June 30, 2011 and 2012.

	<u>2011</u>	<u>2012</u>
Receipts:		
Local Revenue Sources	\$ 2,694,846	\$ 2,674,162
State Revenue Sources	9,570,526	10,500,676
Federal Revenue	107,209	160,591
Other Sources	152,498	137,405
Total Receipts	12,525,079	13,472,834
Expenses:		
Instruction	\$ 6,956,156	\$ 6,450,564
Student Support Services	536,631	716,872
Instructional Support	345,279	250,961
District Administration	362,070	384,920
School Administration	481,501	1,083,778
Business Support	446,966	374,199
Plant Operations	1,573,982	1,673,497
Student Transportation	1,663,444	1,678,104
Other	489,980	332,708
Total Expenses	12,856,009	12,945,603
Receipts in Excess of Expenses	<u>\$ (330,930)</u>	<u>\$ 527,231</u>

On-behalf of amounts are not included in the above figures. On-behalf payments as defined by KDE are payments the state makes on behalf of employees to the various agencies for health and life insurance benefits and administration fees. Further discussion of these can be found in Note 12 on page 31.

General Fund Receipts

The majority of receipts were derived from state funding 78% with locally generated receipts making up 20% of total receipts.

LEWIS COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012
(Continued)

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. The beginning balance for the 2012-2013 fiscal year is \$1,126,316. Significant Board actions that will impact the 2012-2013 fiscal year finances include employee step increases due to an additional year of experience, additional employer matching benefit expenses, and uncertainty regarding funding.

The Lewis County School District's current and estimated grant notifications are not anticipated to make a year-to-year material impact upon the remaining funds. Award notifications and estimates are fairly in line with budgeted amounts.

Questions regarding this report should be directed to **Joe Kennedy, Director of Finance/Treasurer** at (606) 796-2811 or by mail at P.O. Box 159, Vanceburg, KY 41179.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lewis County School District (District) is the basic level of government, which has financial accountability and control over all activities related to the public school education within the jurisdiction of the Lewis County School District. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and have primary financial accountability for fiscal matters. The District is not included in any other governmental "reporting entity" as defined by GASB pronouncements. In accordance with GASB Standard 14, financial transactions of the following component unit are incorporated in the accompanying financial statements.

Lewis County School District Finance Corporation – The Lewis County School District resolved to authorize the establishment of the Lewis County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Lewis County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

District-wide Financial Statements:

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The District-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segments or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures or expenses as appropriate. The various funds are summarized by type in the financial statements. The District uses the following funds:

Governmental Fund Types:

General Fund - The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of grants from local, state and federal revenue sources that are legally restricted to expenditures for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. Federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

Construction Fund – The Construction Fund is used to account for all resources including proceeds from bond sales for the authorized acquisition and construction of capital facilities.

Capital Outlay Fund - The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives \$100 per the District's adjusted average daily attendance restricted for use in financing projects as identified in the District's facility plan.

Building Fund - The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, as applicable. Funds may be used for projects identified in the District's facility plan.

Proprietary Fund Type

The District utilizes the proprietary fund type to account for the major funds: Food Service. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of USDA commodities on the financial statements, except as required by the Single Audit Act as presented on the Schedule of Expenditures of Federal Awards.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund Type

The School Activity Funds are fiduciary funds used to account for student activity organizations in accordance with the Accounting Procedures for Kentucky School Activity Funds. Financial statements of groups and organizations associated with the school system but not originated within the District (e.g., Band Boosters, Parent-Teacher Associations, etc.) are not included within school activity funds.

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds include a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds that are presented in the fund financial statements use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Exchange and Non-exchange transactions – There are two types of transactions: exchange and non-exchange. The method of determining revenue recognition (i.e., accrual v. modified accrual) depends upon the type of exchange as well as source of revenue. Exchange transactions occur when each party receives essentially equal value. Non-exchange transactions occur when one party receives value without directly giving equal value in return.

Modified Accrual - Revenue from non-exchange transactions (e.g., grants, entitlements and donations) must be available to be recognized. These sources of revenue are recognized in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenues from exchange transactions are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the District, “available” means within sixty days of June 30. Property tax revenue is recognized in the fiscal year for which the taxes are levied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Under the modified basis of accounting, expenditures are generally

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Accrual - Under the accrual basis of accounting, revenues are recorded when an exchange takes place. Expenses are recognized at the time they are incurred.

Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Kentucky Law, appropriations lapse at fiscal year end. Encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the proprietary fund type considers highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Inventories

On the government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditures in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Budget

The District is required by state law to adopt a budget annually. The budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP). Once the District approves the budget, it can be amended. Budget appropriations lapse at year-end.

Fund Balances

The School Board has implemented GASB Statement 54 employing new terminology and classifications for fund balance items.

Non-spendable Fund Balance includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable. The District did not have a non-spendable fund balance at June 30, 2012.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balances (Continued)

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2012, the District had \$31,370 restricted in the Building Fund as SFCC escrow and \$1,018,262 restricted in the Construction Fund for future construction.

Committed fund balances are those amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had committed \$170,871 for sick leave as of June 30, 2012.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrances of funds. The amount assigned related to encumbrances at June 30, 2012, was \$11,482 in the General Fund. Assigned fund balance also include (a) all remaining amounts (except for negative amounts balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed, and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles, (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. SAFEGUARDING CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents consist of amounts deposited in interest bearing accounts. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

NOTE 2. SAFEGUARDING CASH AND CASH EQUIVALENTS (CONTINUED)

At June 30, 2012, the carrying amount of the District's combined deposits (cash and cash equivalents) excluding school activity funds was \$2,551,094 and the combined bank balances totaled \$2,775,186. The bank balances were covered by the combination of FDIC insurance and collateral held by the District's agent in the District's name at June 30, 2012.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). All deposits meet current guidelines.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 Deposits that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities and repurchase agreements. The investment pool and repurchase agreements are considered nonparticipating contracts. The District has a repurchase agreement whereby daily bank deposits sweep to an interest bearing overnight account. Such agreements can be categorized according to three levels of risk. These three levels of risk are:

Category 1 Investments that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Investments that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Uninsured and unregistered investments held by the counter party, its trust or its agent, but not in the District's name.

The District's investment in repurchase agreements is classified by risk level as Category 2.

NOTE 3. PROPERTY TAXES

Revenues and other governmental fund financial resource increments (i.e. bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual; that is, when they become measurable and available to finance expenditures of the fiscal periods. Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are timely mailed, collection date is the period from November 1 through December 31. Collections from the

NOTE 3. PROPERTY TAXES (CONTINUED)

period November 1 through November 30 receive a two percent discount. The due date is the period from December 1 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien filed by the County Attorney.

NOTE 4. RETIREMENT PLANS

Kentucky Teachers' Retirement System

The Kentucky Local School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members who established an account in a state retirement system before July 2008 are required to contribute 10.355% of their salaries to KTRS. Members after July 2008 contribute an additional 0.5%. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

NOTE 4. RETIREMENT PLANS (CONTINUED)

Kentucky Teachers' Retirement System (Continued)

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2011-2012 fiscal year.

The Lewis County Schools' total payroll for the year was \$12,729,991. For the year ended June 30, 2012, the Commonwealth contributed \$1,031,457 to KTRS for the benefit of participating employees. The School districts contributions to KTRS for the year ending June 30, 2012 were \$282,045 which represents those employees covered by federal programs.

County Employees Retirement System

Plan Description - The County Employees Retirement System (CERS) administered by the Kentucky Retirement System (KRS) is a cost-sharing multiple-employer defined benefit public employee retirement system. The plan provides benefit pension plan coverage for substantially all regular non-certified, full-time employees of each county and Public Schools, and any additional eligible local agencies electing to participate in the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1980, 6% thereafter through June 30, 1986, and 4% thereafter.

CERS through KRS provides for retirement, disability, death, and survivor and health benefits of its members. The KRS annual financial report and other required disclosure information is available by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by calling (800) 928-4646.

Funding Status and Progress - The Kentucky Retirement System administers CERS based upon employer matching contributions from each county, Public Schools and eligible local agencies electing to participate in the System. The Board of Trustees of Kentucky Retirement Systems determines contribution rates each biennium. The following are CERS non-hazardous contribution rates for the year ended June 30, 2012 member is 5% of their salaries. Participation after September 1, 2008 is at the rate of 6%. The District is required to contribute 18.96 %.

The contribution requirement for CERS for the year ended June 30, 2012, was \$725,914, which consisted of \$573,695 from the District and \$152,219 from employees.

Additional information and historical trend information can be obtained from the Teachers Retirement System of Kentucky and the County Employee Retirement System of Kentucky.

NOTE 5. LIABILITY FOR COMPENSATED ABSENCES

Certified employees are awarded a maximum of 10 days of sick leave annually, based upon employment contract terms and District policy. Sick leave is accrued without limitation. Upon retirement from the school system, a certified and classified employee receives from the District an amount equal to 30% of the value of accumulated sick leave at the current daily rate of pay. At June 30, 2012, the estimate for those employees with 27 or more years of service is \$363,374, in which \$170,781 is short term and \$192,593 is long term, both recorded on the District-wide financial statements.

NOTE 6. CAPITAL ASSETS

Capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Life in Years</u>
Buildings and Improvements	40
Land Improvements	20
Technology Equipment	5
Vehicles	5-14
Food Service Equipment	7
Furniture and Fixtures	7
Other	10

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LEWIS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

NOTE 6. CAPITAL ASSETS (CONTINUED)

GOVERNMENT FUNDS

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
Cost				
Land	\$ 272,556	\$ -	\$ -	\$ 272,556
Land Improvements	2,055,778	-	-	2,055,778
Buildings & Improvements	23,730,619	-	500	23,730,119
Technology Equipment	3,287,093	132,375	-	3,419,468
Vehicles	3,854,253	-	(187,116)	3,667,137
Other	704,074	39,246	-	743,320
Totals at historical cost	<u>\$ 33,904,373</u>	<u>\$ 171,621</u>	<u>\$ (187,616)</u>	<u>\$ 33,888,378</u>
Less: Accumulated Depreciation				
Land Improvements	850,530	94,271	-	944,801
Buildings & Improvements	8,575,777	671,694	-	9,246,971
Technology Equipment	2,666,325	263,124	(500)	2,929,449
Other	446,737	40,852	-	487,589
Vehicles	2,310,511	263,480	(187,616)	2,386,875
Total accumulated depreciation	<u>14,849,880</u>	<u>1,333,420</u>	<u>(187,616)</u>	<u>15,995,685</u>
NET GOVERNMENT ASSETS	<u>\$ 19,054,493</u>	<u>\$ (1,161,799)</u>	<u>\$ -</u>	<u>\$ 17,892,693</u>

ENTERPRISE FUNDS

FOOD SERVICE	<u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
Cost				
Technology Equipment	\$ 23,950	\$ -	\$ -	\$ 23,950
General Equipment	381,027	1,998	-	383,025
Totals at historical cost	<u>\$ 404,977</u>	<u>\$ 1,998</u>	<u>\$ -</u>	<u>\$ 406,975</u>
Less: Accumulated Depreciation				
Technology Equipment	20,345	2,940	-	23,285
General Equipment	347,394	5,013	-	352,407
Total accumulated depreciation	<u>367,739</u>	<u>7,953</u>	<u>-</u>	<u>375,692</u>
NET ENTERPRISE FUNDS	<u>\$ 37,238</u>	<u>\$ (5,955)</u>	<u>\$ -</u>	<u>\$ 31,283</u>

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS

The District is required to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Lewis County School District Finance Corporation to construct school facilities. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund in accordance with state law.

The maturity date, original amounts of the issue and interest rates are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	2011			2012
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
1998 Series	2,265,000	11/1/2010	3.65-4.5%	-	-	-	-
2001 Series	2,640,000	4/1/2021	4.73%	-	-	-	-
2003 Series	2,705,000	8/1/2023	1.6-4.2%	2,310,000	-	130,000	2,180,000
2005 Series	1,920,000	8/1/2025	3.0-4.25%	1,695,000	-	45,000	1,650,000
2006 Series	1,450,000	10/1/2026	3.6-4.1%	1,305,000	-	45,000	1,260,000
2008R Series	2,250,000	12/1/2019	2.75-3.25%	1,990,000	-	195,000	1,795,000
2008BR Series	1,145,000	12/1/2016	2.15-3.3%	750,000	-	140,000	610,000
2008C Series	2,690,000	9/1/2028	3.5-4.75%	2,575,000	-	60,000	2,515,000
2010R Series	2,195,000	4/1/2021	2.00-2.625%	1,995,000	-	180,000	1,815,000
2012 Series	1,110,000	6/1/1932	1.0-3.375%		1,110,000	-	1,110,000
TOTAL				\$ 12,620,000	\$ 1,110,000	\$ 795,000	\$ 12,935,000

The District has entered into “participation agreements” with the School Facilities Commission. The Kentucky General Assembly created the Commission for the purposes of assisting local school districts in meeting school construction needs. The table on page 29 sets forth the amount to be paid by the District and the Commission for each year until maturity of all bonds issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding. The District is liable for all issues; however, School Facilities Construction Commission participates by contributing those portions of debt that are appropriated in the State’s biennial budget.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District including amount to be paid by the Commission, at June 30, 2012, for debt service (principal and interest) are shown on the following page:

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS (CONTINUED)

**LEWIS COUNTY SCHOOL DISTRICT
SCHEDULE OF DEBT PAYMENTS
AS OF JUNE 30, 2012**

YEAR	LEWIS COUNTY SCHOOL DISTRICT		SCHOOL FACILITIES CONSTRUCTION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2013	623,189	316,494	241,811	125,531	1,307,025
2014	641,291	298,883	248,709	119,434	1,308,317
2015	659,810	280,193	255,190	111,969	1,307,162
2016	675,760	260,459	254,240	104,169	1,294,628
2017	697,779	239,585	232,221	96,480	1,266,065
2018	718,783	217,524	211,217	89,119	1,236,643
2019	746,818	194,396	218,182	81,829	1,241,225
2020	768,126	169,197	221,874	74,261	1,233,458
2021	717,285	143,461	217,715	66,321	1,144,782
2022	525,263	116,562	229,737	58,173	929,735
2023	477,838	95,512	237,162	49,512	860,024
2024	500,102	74,723	234,898	40,524	850,247
2025	371,586	55,799	208,414	32,059	667,858
2026	386,149	38,971	203,851	24,290	653,261
2027	267,399	24,308	147,601	17,879	457,187
2028	185,714	13,806	104,286	13,262	317,068
2029	197,803	4,698	102,197	9,696	314,394
2030	-	-	65,000	6,919	71,919
2031	-	-	70,000	4,725	74,725
2032	-	-	70,000	2,363	72,363
TOTAL	<u>\$ 9,160,695</u>	<u>\$ 2,544,571</u>	<u>\$ 3,774,305</u>	<u>\$ 1,128,515</u>	<u>\$16,608,086</u>

The issue date, original amounts of the issue and interest rates are summarized below:

KISTA Issue	Original Amount	Maturity Dates	Interest Rates	2011 Balance	Additions	Retirements	2012 Balance
2001A	222,123	3/1/2012	3.57%	22,337	-	22,337	-
2003	223,047	3/1/2013	2.34%	41,352	-	20,266	21,086
2004	240,189	3/1/2014	2.03%	69,772	-	25,593	44,179
2005	241,618	3/1/2015	1.27%	96,799	-	25,216	71,583
2006	251,621	3/1/2016	2.08%	127,322	-	25,631	101,691
2006B	335,557	3/1/2017	2.03%	207,566	-	33,292	174,274
2008	237,412	3/1/2018	2.08%	165,576	-	22,527	143,049
2009	267,583	3/1/2019	1.97%	210,138	-	24,873	185,265
2009C	277,722	3/1/2020	2.51%	248,845	-	30,635	218,210
2011	388,369	3/1/2021	3.98%	388,369	-	42,002	346,367
TOTAL				<u>\$1,578,076</u>	<u>\$ -</u>	<u>\$ 272,372</u>	<u>\$1,305,704</u>

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

NOTE 7. GENERAL LONG-TERM DEBT AND LEASE OBLIGATIONS (CONTINUED)

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2012:

**LEWIS COUNTY SCHOOL DISTRICT
SCHEDULE OF KISTA DEBT PAYMENTS
June 30, 2012**

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2013	247,506	42,169	289,675
2014	221,617	34,937	256,554
2015	200,540	28,194	228,734
2016	176,334	21,860	198,194
2017	152,278	16,063	168,341
2018	117,139	10,999	128,138
2019	92,409	7,025	99,434
2020	61,652	3,721	65,373
2021	36,229	1,449	37,678
TOTAL	<u>\$1,305,704</u>	<u>\$ 166,417</u>	<u>\$ 1,472,121</u>

NOTE 8. OPERATING FUND TRANSFERS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Special Revenue	General	Indirect cost transfer	\$ 9,480
Operating	School Food Service	General	Indirect cost transfer	67,566
Operating	Capital Outlay	General	Maintenance expenses	16,385
Total Transfers				<u>\$ 93,431</u>

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance program for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and

NOTE 9. RISK MANAGEMENT (CONTINUED)

claims for which coverage was provided) would be returned to the member on a pro rata basis. The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the district continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE 10. COMMITMENTS AND CONTINGENCIES

Litigation

The Board of Education is the defendant in a number of lawsuits arising principally in the normal course of operations and from alleged acts committed by individual(s) employed by the district and management. The Board is covered by insurance against this type of liability. At this time, the administration is unable to make an evaluation regarding the likelihood of an unfavorable outcome or any possible financial implication to the Board of Education.

Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements.

NOTE 11. BUDGETARY DISCLOSURE REQUIREMENTS

Budgetary comparisons for the General Fund and Special Revenue Fund are disclosed as required supplementary information. "On behalf" contributions made by the Commonwealth of Kentucky were recorded in the District's records as revenues and expenditures. The purpose of the policy change was to conform to requirements of the GASB 34 reporting model. The District's budget appropriations did not reflect this change in policy.

NOTE 12. ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2012 was \$3,452,275. These payments were recorded as follows:

General Fund	\$	3,314,986
Food Service		137,289
Total	\$	<u>3,452,275</u>

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal activity of Lewis County Public Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance is reported in the Schedule at the fair value of the commodities received. Commodities passed through the U.S. Dept. of Agriculture during the year totaled \$86,589.

LEWIS COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2012

Section 1. Summary of Auditor's Findings

Financial statements:

Type of auditor's report issued: unqualified
Internal control over financial reporting Yes No

- Material weaknesses identified? X
- Significant deficiencies identified that are not considered to be material weaknesses? X none reported
- Noncompliance material to financial statements noted? X

Federal Awards:

Internal control over major programs Yes No

- Material weakness identified? X
- Significant deficiencies identified that are not considered to be material weaknesses? X

Type of auditor's report issued on compliance for major programs: unqualified
Yes No

- Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133? X

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.559	Child Nutrition Cluster
84.318, 84.396	Education Technology Cluster
84.410	Education Jobs Fund

- Dollar threshold used to distinguish between type A and type B programs \$300,000
- Auditee qualified as low-risk auditee? Yes X No

Section 2. Financial Statement Findings

Current Year: No matters were reported.

Prior Year: 2011-01: Tagged Fixed Asset: (CORRECTED)

Section 3. Federal Awards Findings and Questionable Costs

Current Year: No matters were reported.

Prior Year: No matters were reported.

LEWIS COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2012

Prior Audit Findings:

2011-01: Tagged Fixed Asset: (CORRECTED)

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Members of the Board
Lewis County School District
Vanceburg, Kentucky

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lewis County School District, Vanceburg, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report.

Internal Control over Financial Reporting

Management of Lewis County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lewis County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lewis County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lewis County School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lewis County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation indentified in Appendix II of the Independent Auditor's Contract- State Audit Requirements.

We noted certain matters involving the internal control over financial reporting that we have reported to management of the Lewis County School District in a separate letter dated November 12, 2012.

Lewis County Public Schools District's responses to the findings identified in our audit, if any, are described in the accompanying schedule of findings and questioned cost. We did not audit Lewis County Public School's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the School District, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ross and Company", written in a cursive, flowing style.

Ross and Company, PLLC
November 12, 2012

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299-1837
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Members of the Board
Lewis County School District
Vanceburg, Kentucky

**INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited Lewis County School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have direct and material effect on each of Lewis County School District's major federal programs for the year ended June 30, 2012. Lewis County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lewis County School District's management. Our responsibility is to express an opinion on Lewis County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request, and Appendix IV to the Independent Auditor's Contract - Instructions for Submission of the Audit Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lewis County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lewis County School District's compliance with those requirements.

In our opinion, Lewis County School District complied, in all material respects, with the compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2012.

INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Internal Control over Compliance

Management of Lewis County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lewis County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lewis County School District's internal control over compliance.

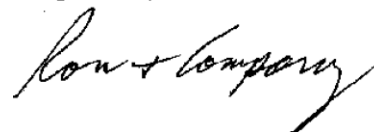
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider material weaknesses as defined above.

Lewis County School District's responses to the findings identified in our audit, if any, are described in the accompanying schedule of findings and questioned cost. We did not audit Lewis County School District's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the Members of the Board of Education, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC
November 12, 2012

ROSS & COMPANY, PLLC
Certified Public Accountants
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Members of the Board
Lewis County School District
Vanceburg, Kentucky

RECOMMENDATIONS AND COMMENTS TO MANAGEMENT

In planning and performing our audit, we considered Lewis County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lewis County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness.

Current Year Findings –

2012-01: Activity Funds Used For Basic Routine Operations and Maintenance

Statement of Condition: The gym floor was painted and refinished at Lewis Co High using activity funds.

Criteria for Condition: School activity funds shall not be used to pay for basic routine operating expenses, renovations or maintenance of school facilities or buildings per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Activity funds were used for maintenance repair of gym floors.

Effect of the Condition: School activity money generated by students may be used to provide student incentives for scholarship, athletics, specialized area performance, school spirit, and similar achievements.

Recommendation for

Correction: The Board is responsible for the maintenance of school facilities or buildings.

Management Response:

School personnel will be reminded that school activity funds shall not be used for basic routine operating expenses, renovations or maintenance of school facilities or buildings.

RECOMMENDATIONS AND COMMENTS
TO MANAGEMENT
(Continued)

Prior year comments: All prior year comments have been corrected.

2011-01: Tagged Fixed Assets: (Corrected)

If any action occurs after this exit conference date, which affects the significant or material findings, it is the responsibility of management to provide that information to the auditors.

We sincerely appreciate the courtesy extended to our audit staff again this year. Of course, should you have any questions or concerns regarding your audit, please feel free to contact us.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC
November 12, 2012